

Statement by  
John Hays, Vice President - National Programs  
The Farm Credit System Foundation  
Before  
Farm Credit Administration  
Public Meeting on Farm Credit System Service to  
Young, Beginning and Small Farmers  
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Chairman Reyna and board members Jorgensen and Flory, thank you for the opportunity to appear before you this morning. As a representative of the FCS Foundation and the Farm Credit Council, I very much appreciate the opportunity to provide you certain results from a national study the Foundation is working on concerning young and beginning producers. The study, entitled Barriers to Success, is still in process and the results and recommendations are being prepared.

An Internet-based survey was used to collect data between March 1 and September 1, 2001. The survey instrument was reviewed and input provided by Drs. David Kohl at Virginia Tech, Michael Boehlje at Purdue, Barry Flinchbaugh at Kansas State, Peter Barry at University of Illinois, and Neil Harl at Iowa State. Just under 700 useful responses were obtained from the survey. The analysis of the comprehensive data has occurred since the survey was closed.

One element of the study on access to credit was just recently published on the FCS Foundation's website, [www.fcsfoundation.org](http://www.fcsfoundation.org). The other elements of the study concern access to information, access to markets, and access to land. These elements will be posted to our website upon each section's completion. Today, I want to focus on the

portion of the study concerning what young and beginning producers want from their lender and how this applies to Farm Credit. It is important for FCA to understand that activities undertaken by Farm Credit or other lenders must be tailored to the kinds of services or programs that young and beginning producers want, not what others perceive they need. The study findings that follow point this out:

- **Lender has a successful track record financing agriculture - 73% said yes.** Farm Credit definitely does have a successful track record financing all types and sizes of producers, including young, beginning, and small producers - with \$8.6 billion outstanding benefiting young producers, \$12.6 billion outstanding benefiting beginning producers, and \$21 billion outstanding benefiting small producers. Loans made to young, beginning, and small producers during 2001, \$3.0 billion, \$4.2 billion, and \$7.1 billion, respectively, are also large figures and show Farm Credit's commitment to assisting the next generation of producers when possible. No other lender group can make similar claims. Even larger figures could be reported by the System if FCA removes a long-standing limitation in the regulations that limit the type of financing that may be provided to part-time producers, many of whom are young, beginning, and small producers.
- **Lender has a wide range of loan programs - 65% said yes.** It is important that System institutions' boards of directors have the flexibility to develop loan programs that work for young and beginning producers. The types of loan programs should not be mandated by FCA as innovation could be stymied. Young and beginning producers would not benefit from over-regulation in this area.

- **Lender/loan officer understands agricultural operations - 82% said yes.** There is no question that as a single sector lender Farm Credit lenders understand agriculture. This alone may interest some young and beginning producers to seek Farm Credit for financing, but other factors explained later in the testimony will provide you with a perspective that needs to be considered as FCA moves forward on this topic.
- **Lender has the best interest rate - 66% said yes.** It is surprising that only two-thirds responded this way about interest rates. This begins to show that young and beginning producers consider many factors in selecting their lender.
- **Lender provides seminars or training on subjects important to YB producers - 28% said yes.** Outreach to young and beginning producers is fundamentally important, however, making available seminars and training is not important to young and beginning producers. Every dollar that FCA would require be spent on such programs is a dollar that cannot be lent to a young or beginning producer. FCA need not prescribe the type of outreach that System institutions conduct. This has to be a local decision, one that many FCS associations have made relative to what young and beginning producer want in a particular market area.
- **Lender supports activities that benefit YB producers - 62% said yes.** Young and beginning producers want to see a lender support a group or activities that young and beginning producers choose to participate in. This is another example of outreach that should not be regulated. Again, it needs to be left to local decisions on matters of outreach to be responsive to young and beginning producers.
- **Family has done business with the lender - 57% said yes.** Farm Credit has a rich history financing family farmers. However, young and beginning producers won't

automatically seek financing where their parents did. This has implications relative to transferring land between generations and again, having available a wide-range of loan programs tailored locally would benefit young and beginning producers the most.

- **Lender makes available other related financial services (checking; savings; investments; etc.) - 51% said yes.** Roughly one-half of the young and beginning producers won't look to Farm Credit for their financing needs because this authority does not exist. It is very important that FCA understands this point when considering whether or not to develop a performance indicator for individual System institutions. The adverse affect is that a System institution could be held to a standard that will never be met and therefore a quantitative measurement should not be required. Boards of directors rather than examiners are best suited to determine how well the institution is serving the market and what additionally could be done.
- **Lender makes available other agricultural services (farm management; consulting; etc.) - 35% said yes.** These types of services are not all that important to young and beginning producers. Like with the other findings, System institutions need the flexibility to tailor programs based on what young and beginning producers in their market area want, not what others may perceive they need.
- **Lender extends credit in good times and bad - 75% said yes.** Farm Credit has been and will be the most important lender to young and beginning producers. The lending figures reported earlier are impressive and FCA should not expect that any additional oversight will have a measurable affect on the System's service to this

market. The results just discussed tell you what young and beginning producers want. This has been and will be provided with FCA's current level of oversight.

I would like to share with you a couple of the significant findings and recommendations from the access to credit portion of the study. Two-thirds of the respondents report having ready access to credit. Those that report the poorest access generate sales of less than \$10,000 on average. These individuals may not receive assistance from the System due to restrictions in FCA regulations and there are no micro-credit programs available to production agriculture through the USDA. The Small Business Administration conducts such a program for small businesses, but through a Memorandum of Understanding, all production agriculture businesses are to be handled by the Farm Services Agency. Thus a credit gap needs to be closed. Another significant finding is that 56% of the respondents reported not having sufficient financial reserves to withstand a few bad years and another 13% reported their reserves as marginal. The solution to help the next generation is not necessarily more credit or more outreach, but it is definitely more income.

The FCS Foundation's mission is to assist young, beginning, and small farmers and ranchers to thrive as businesspersons in their local and the global agricultural marketplace. We do this by supporting financially organizations that young, beginning, and small producers belong to and by funding research. I look forward to sharing with you all of the results of the Barriers to Success study. Thank you for allowing me to share certain of these results with you today.